

May 30, 2002

The Honorable Mike Kreidler
Washington State Insurance Commissioner
Office of Insurance Commissioner
5000 Capitol Boulevard
Tumwater, Washington 98501

Dear Commissioner Kreidler:

Thank you for the opportunity to meet on a matter of significant importance to Premera Blue Cross and, we believe, to the citizens of Washington and Alaska.

Premera Blue Cross proposes to undertake a corporate reorganization designed to give the Premera family of companies access to the equity capital markets. We propose that, as part of that reorganization, a fund would be created that would be dedicated to health initiatives for the citizens of our Washington and Alaska service areas. We believe the reorganization could result in substantial funds dedicated to the public benefit.

We recognize that different aspects of the reorganization will involve regulatory review by various state officials, including the Office of the Washington State Insurance Commissioner. In addition, the proposed reorganization will likely draw significant community interest, and may be viewed as presenting important public policy issues.

Accordingly, we wanted an opportunity to discuss this with you and your staff and to begin identifying the issues you believe we should address. We also want to underscore our commitment to work collaboratively with your office, and all state officials with an interest in this reorganization, toward an outcome we believe is in the best interests of Premera, our customers and the health of the general public in our service areas.

Premera Business & Current Corporate Structure

Premera Blue Cross, which also operates as Blue Cross Blue Shield of Alaska in that state, provides health insurance coverage to more than one million enrollees in Washington and Alaska. It is part of the Premera family of companies, which provide health care coverage and related services in Washington, Alaska and Oregon.

Premera is committed to remaining an independent, locally managed company dedicated to its mission – providing peace of mind to our subscribers and their families

about their health care coverage. We are proud of our record of customer service, financial stability, and innovative products, services and processes.

Premera Blue Cross, and its corporate member PREMERA, are organized as Washington non-profit corporations. Premera Blue Cross is licensed as a health care service contractor under the Washington Insurance Code, and as a hospital and medical service corporation in Alaska. Although organized as non-profits under state law, neither Premera Blue Cross nor PREMERA are tax exempt organizations under federal law. The Premera family of companies includes both non-profit as well as for-profit corporations.

Purpose of Proposed Reorganization

The Premera family of companies desires to reorganize in a manner that will allow it to access the equity capital markets. Such capital availability would enhance Premera's flexibility and responsiveness to customer needs in an increasingly demanding health-care marketplace. Access to capital would also allow Premera to make continued investments in new products and technology, support a growing customer base, and allow us to continue to make our customers' experience with their health plan better and more efficient. It would also provide additional resources to support our intent to remain a strong, locally managed independent health plan in a world of ever-increasing consolidations in the health care system.

Health Plan "Conversions" Nationally

Reorganizations of non-profit health plans to access the capital markets, commonly referred to as "conversions," have been occurring at an accelerated pace, and are the subject of much attention around the country. The experience with such "conversions" in other states provides valuable lessons about reorganization models that can result in a positive outcome not only for non-profit health plans seeking access to equity capital but also for the public in general. While Premera and its predecessor companies were not established or operated as charitable institutions, conversions by Blue Cross Blue Shield plans elsewhere in the country have resulted in sizeable endowments dedicated to supporting health initiatives in their local communities. Premera proposes to take a similar approach as more fully discussed below.

Premera Reorganization Proposal & Creation of Fund to Support Health Initiatives

We recognize that there is no "conversion statute" in Washington. We do, however, believe that access to the equity markets can be accomplished through a reorganization described, at a high level, as follows.

We would like to initiate discussions of a reorganization pursuant to which a newly formed successor to PREMERA would become a publicly traded company. The reorganization would include, among other steps, the following elements:

- Premera Blue Cross, a non-profit corporation, will create a new for-profit subsidiary (New PBC) to which Premera Blue Cross will transfer all its assets in exchange for 100% of New PBC stock
- Premera Blue Cross will dissolve and distribute its assets (comprised of 100% of the initial stock of New PBC) to PREMERA, its corporate member
- PREMERA, a non-profit corporation, will create a new for-profit subsidiary (New PREMERA) to which PREMERA will transfer all its assets (comprised of 100% of New PBC's stock) in exchange for 100% of New PREMERA's stock
- PREMERA will dissolve and distribute its assets (comprised of 100% of the initial stock of New PREMERA) to a newly formed foundation established to fund support for health initiatives in Washington and Alaska as discussed below (the "Foundation Shareholder")

After completion of the reorganization, the Foundation Shareholder would hold 100% of the initial stock of New PREMERA, representing the entire ownership interest of New PREMERA at the conclusion of the reorganization. The Foundation Shareholder's shares in New PREMERA would be sold in the public markets, subject to a divestiture schedule consistent with Blue Cross Blue Shield Association rules and pre-agreed terms established between New PREMERA and the Foundation Shareholder, with approval of applicable regulatory authorities. The cash generated from such sales would be dedicated to support health initiatives for the public good in the states of Washington and Alaska.

New PREMERA would have the right to issue and sell newly issued shares of New PREMERA, at its discretion, with proceeds going directly to New PREMERA to fund the ongoing capital needs of the Premera companies.

Government Approvals

Various elements of the proposed reorganization require review and/or approval by different state officials. For example, transfer of Premera Blue Cross assets to a newly formed, wholly owned subsidiary and licensure of that subsidiary as a health care service contractor, come under the purview of the Washington State Insurance Commissioner. Corporate elements of the proposed reorganization, and in particular the disposition of assets of the Washington non-profit corporations on dissolution, come under the

provisions of RCW 24.03 and RCW 24.06. Accordingly, they are subject to review by the Washington Attorney General. In addition, different companies within the Premera family are regulated under the Insurance Codes of various states. Accordingly, we are also initiating discussions with Attorney General Gregoire, insurance regulators in Alaska and Oregon, as well as with other state officials with an interest in the proposed reorganization.

Next Steps

With this introduction, we would like to begin more substantive discussions with your office during which we can review the proposed reorganization in more detail, explore areas you believe should be addressed, and to establish a process pursuant to which you and other state officials can coordinate applicable reviews.

Because of the nature of the proposed reorganization, we understand that the process may entail significant review and time. Our hope is that the review process could be accomplished over the next six months.

We look forward to working with you and your staff, and very much appreciate the opportunity to meet with you personally this morning.

Very truly yours,



H. R. Brereton (Gubby) Barlow
Chief Executive Officer



Yori Milo
Executive Vice President, Chief Legal &
Public Policy Officer